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## CHESTERFIELD COUNTY

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LANE B. RAMSEY  
COUNTY ADMINISTRATOR

October 3, 2003

The Honorable Members of the Board of Supervisors  
County of Chesterfield, Virginia

Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of Chesterfield County (the 'County') for the fiscal year ended June 30, 2003. State law requires that all local governments have all their accounts and records, including all accounts and records of their constitutional officers, audited annually as of June 30 by an independent certified public accountant and that an audited financial report is submitted on or before November 30 to the Auditor of Public Accounts of the Commonwealth of Virginia (APA). This report has been prepared by the Accounting Department in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the APA.

The CAFR was prepared with an emphasis on full disclosure of the financial activities of the County. Responsibility for both the completeness and the reliability of the contents rests with County management. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designated both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

KPMG LLP, a firm of licensed certified public accountants, audited the County's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance section of this report.

*Providing a **FIRST CHOICE** community through excellence in public service.*

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The County is located in east-central Virginia, adjacent to the City of Richmond, and is a growing suburban, residential area, with concurrent commercial growth and industrial development. The County encompasses a land area of approximately 446 square miles with a population of approximately 278,000. A large portion of the land in the County, especially in the southwestern area, remains rural. The County is empowered to levy a property tax on both real and personal properties located within its boundaries.

Effective January 1, 1988, the County began operating pursuant to a County Charter approved by the citizens of the County in a referendum election and subsequently enacted by the Virginia General Assembly. The County is an independent political subdivision of the Commonwealth of Virginia with no subordinate political entities within its borders and the County is absolutely immune from annexation by adjacent localities. The governing body of the County is the Board of Supervisors (the "Board") that establishes policies for the administration of the County. The Board is composed of five members, one member elected from each of five magisterial districts. A member must be a resident of the district that he/she serves. Members are elected for four-year terms. The current Board was elected on November 2, 1999. The Board appoints a chief executive officer known as a County Administrator, who serves at the pleasure of the Board and carries out the policies established by the Board.

The County provides a full range of municipal services. Major programs include public safety, health and welfare, parks, recreation and cultural activities and community development. Additionally, the County operates an airport and water and wastewater utility systems.

The financial reporting entity includes all of the funds of the County, the primary government, as well as all of its component units. Two discretely presented component units, the School Board and the Health Center Commission, are included in the reporting entity because of the County's financial accountability for these organizations; however, these component units are reported in separate columns in the County's financial statements. Additional information on these legally separate organizations can be found in Note 1 to the financial statements.

The annual budget serves as the foundation for the County's financial planning and control. In November, County departments receive an expenditure target. Departments submit budgets and work plans, based on this target, to the County Administrator for review in January. Requests for additional funding by departments are negotiated and the County Administrator's proposed budget is prepared and submitted to the Board prior to March 15. The County is required to hold a public hearing on the proposed budget and to adopt a final budget by May 1. The appropriated budget is at the function level for the General Fund and at the fund level for the Comprehensive Services Fund. The County Administrator is authorized to amend appropriations by transferring unencumbered appropriated amounts within appropriation function or to increase any appropriation function up to \$20,000. The Board must approve most other amendments that increase the total appropriation of any function level. Budgetary comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 29 as part of the financial statements for the governmental funds. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the supplemental information section of this report, which starts on page 86. Also included in the supplemental information section is a project-length budget-to-actual comparison for each governmental fund for which a project-length budget has been adopted.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

#### **Local economy**

The County's unemployment rate for 2002 averaged 3.0%, up from 2.5% the previous year. However, the County fared better than the 2002 unemployment rate of the Richmond-Petersburg area of 4.0% and the Commonwealth of Virginia of 4.1%.

Chesterfield recognizes the importance of expanding the business tax base to provide revenues for needed services and has made a commitment to promoting economic development. New economic activity for fiscal year 2003 included both commercial and industrial projects. The Department of Economic Development assisted with existing company expansions and new company locations. New and expanding businesses invested nearly \$96.9 million and created 381 new jobs. Taxable retail sales for calendar year 2002 increased by 3.3% to \$2.71 billion.

DuPont's new warehouse and logistics complex is an 800,000 square foot facility for finished and semi-finished products manufactured at DuPont's Spruance plant. Products such as Tyvek, Nomex and Kevlar are organized and warehoused at the center before being shipped all over the world. The new facility represents the consolidation of seven other warehouse sites and will initially house 100 employees.

Megellan Systems International, LLC, a producer of specialty fibers, has located a research and development facility in the County. The company will lease 30,000 square feet of space in the Jeff Davis Enterprise Center and has begun setting up a pilot plant facility at the same location. It is estimated that 35 employees will be hired by December 31, 2003. Projected investment in the project will approach \$42 million.

Tokyo-based Mitsubishi Gas Chemical Company announced that it will construct a Nylon-MXD6 production facility in the County. The new production plant, based on Mitsubishi's proprietary polymer technology, will be an investment of \$14 million and is expected to employ 30 employees.

The County is still considered to have the best available location for the next semiconductor chip manufacturing company at Meadowville Technology Park. In addition to this area, the creation of the Virginia Bio Technology Research Park at Meadowville will allow the County and the research park to jointly market prospects for either site and elevate biosciences in the Richmond area. Located just south of the Interstate 295 Varina-Enon Bridge and 15 miles from the downtown research park, the satellite location, which will be part of the Meadowville Technology Park, will have the capacity for approximately 2 million square feet of combined office, laboratory and manufacturing space.

The majority of space in the southwestern quadrant of the metropolitan Richmond area market including Chesterfield County is primarily office buildings. Although the quadrant's office vacancy rate increased from 16.2% as of June 2002 to 18.9% for June 2003, office buildings in the County continue to be in demand and are sold out in desirable locations near Chesterfield Town Center. Sales have been driven by low interest rates and the perception that it's more economical to purchase instead of rent or lease. The search for office space for medical practices continues to be active with particular focus on land near hospitals. The Lucks Lane interchange on Route 288 is already open to motorists and the opening of the remaining corridor, scheduled to be completed in the fall of 2003, is expected to increase economic development potential for the northwestern area of the County. Over the next several years, with effective planning and the support of local property owners and citizens, this area is expected to become one of the region's premier office and light industrial employment centers.

A major regional project for area jurisdictions was the expansion of the Richmond Centre, which increased this convention facility to almost three times its prior size. On January 9, 1998, the County, in conjunction with three other participating jurisdictions (the Counties of Hanover and Henrico, and the City of Richmond) created the Greater Richmond Convention Center Authority (Convention Authority). The Convention Authority was created to acquire, finance, expand, renovate, construct, lease, operate, and maintain the facility and grounds of a visitors and convention center or centers including the Richmond Centre facility. The primary purpose of the Convention Authority is to finance the expansion of the project and to operate and maintain the facility once construction is complete. The first phase of the expansion opened in the spring of 2001, which included the ballroom, parking deck, central plant, administrative offices, and meeting space. The second phase of the expansion was completed in February 2003, which included construction of the exhibit halls and completion of the remaining meeting room space.

### **Long-term financial planning**

The County annually prepares a Capital Improvement Program (CIP). This Program serves as a planning tool for the efficient, effective, and equitable distribution of public improvements throughout the county. The Program represents a balance between finite resources and an ever-increasing number of competing County priorities. This balance was achieved using the priorities and objectives established by the Board of Supervisors consistent with the County's Strategic Plan.

The Board of Supervisors and the School Board have agreed to plan for a bond referendum in the fall of 2004. As such, the County Administrator directed staff to prepare a seven (7) year CIP to allow the Board an opportunity to identify potential projects in the fiscal year 2005–2010 planning period that could be placed on the referendum.

The fiscal year 2004-2010 CIP totals \$709.9 million and is comprised of County improvements of \$244.3 million, School Board improvements of \$318.8 million and Utilities Department improvements of \$146.8 million.

Significant planned improvements include a new community development building, an expansion/renovation of the health and social services building, and a new local jail. The community development building will be approximately 90,000 square feet, and will consolidate community development departments from existing buildings. The estimated cost is \$21.8 million and design is underway with project completion anticipated in early 2006. The health and social services building expansion/renovation will add an additional 45,000 square feet of space, and will alleviate an acute shortage of workspace for staff. The estimated cost is \$12.4 million and planned for funding in fiscal years 2006-2008. The County is in the process of replacing its local jail facility. The existing facility has deteriorated and the replacement project encompasses demolition of the existing facility and reconstruction of new space. No new jail beds will be added. The estimated project cost is \$24.8 million with anticipated state reimbursement of 25% of construction costs. Project completion is anticipated in early 2006.

Other major projects in the CIP include new fire stations, continued expansion of the police and fire training center, and implementation of Phase II of the Emergency Communications System. The CIP also proposes one new library, expansions and renovations of three existing libraries, a new Community Arts Center, new parks and recreation facilities, and significant reinvestments in existing parks and recreation facilities.

The School Board's approved CIP for fiscal year 2004 totals \$24.6 million. Projects included are: Greenfield Elementary, \$4.5 million; \$6.4 million to provide major maintenance improvements at various facilities countywide; \$9 million in anticipated annual maintenance improvements; \$3.2 million to continue implementation of the technology plan; \$3.2 million for computer replacements; \$4 million for computers at the new Matoaca High School; \$2.0 million for the new financial/HR system; and \$4 million for the addition to Manchester High School.

For fiscal year 2004-2010, the Utilities CIP includes \$146.8 million for planned water and wastewater infrastructure needs (\$92.3 million for water and \$54.5 million for wastewater). In fiscal year 2004, \$11.3 million is allocated for the water system, and \$10.4 million is allocated for the wastewater system.

### **Cash management policies and practices**

The County Treasurer follows a deposit and investment policy in accordance with the Commonwealth of Virginia statutes. The Treasurer determines cash flow needs and funds are invested daily in various maturities to meet cash flow requirements and maximize earnings. Temporary idle funds are automatically invested overnight in repurchase agreements that are secured or collateralized by governmental securities as required by the Code of Virginia. Deposits and investments during the year consisted of demand deposits, certificates of deposit, savings accounts, a money market fund, Virginia Local Government Investment Pool, stocks and bonds, direct obligations of the US Treasury, Virginia State Non-Arbitrage Program, and an open-ended mutual fund. The maturity of the investments range from one day for money market funds to two years for obligations of the US Treasury, with an average maturity of 160 days. The average yield on investments in 2003 was 1.69%, which exceeded the three-month U.S. Treasury Bill average (1.32%) and the Donoghue's Money Fund average (1.04%) by 37 and 65 basis points, respectively. Investments with a maturity date of more than one year from date of purchase are stated at fair value and investments with a maturity date of one year or less from the date of purchase are stated at amortized cost. Decreases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in case of temporary changes in the fair value of investments that the government intends to hold to maturity.

### **Risk management**

The Risk Management Department provides protection from losses of property, casualty, and liability claims for the County and the School Board. Third party coverage is obtained for real and personal property and certain liability risks. Third party property and casualty coverage is maintained for the Fire Department. The County maintains a broad form Public Officials Liability insurance policy to provide catastrophe coverage for individual claims in excess of \$2.0 million. Risk Management revenues are generated by charges to the departments based on management's estimate of the cost of predicable

losses, the cost for administering these losses, a pro rata share of insurance premiums paid, actuarial estimates for incurred but not reported claims and the Risk Management Department's operational costs.

Worker's compensation claims are funded annually by appropriation in the various funds. The County maintains an excess insurance policy for those claims greater than \$250,000. Claims are administrated by the Risk Management Department.

Additional information on the County's risk management activity can be found in Note 11 of the financial statements.

### **Pension and other postemployment benefits**

The County contributes to the Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS, for all full-time employees. VRS uses an actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees to determine the localities' contributions to the plan. The County's actual contribution matched the annual required contribution for fiscal year 2003. The County currently has a net pension obligation due to its election to phase-in funding of the cost of living adjustment for 1998. The County, as of the actuarial valuation date of June 30, 2002, carried plan assets of 99.16% of the actuarial accrued liability.

The County sponsors a single-employer defined benefit pension plan that covers certain qualified County employees in addition to any benefits that may be received under VRS and Social Security. The plan provides for annual employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. The County's actual contribution for 2003 matched the annual required contribution as determined in the July 1, 2002 actuarial valuation. The County currently has a net pension obligation and has funded 59.35% of the actuarial accrued liability determined as of July 1, 2003. The remaining unfunded actuarial accrued liability is being funded using a 40-year open amortization period.

The County provides postretirement health and dental care benefits for all full-time, salaried permanent employees who retire at or after age 55 with at least five years of credited service. As of the end of the current fiscal year, there were 519 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

The School Board also provides its employees with a pension plan through VRS, a supplemental retirement program plan, and postretirement health and dental care benefits.

Additional information on the County's and School Board's pension arrangements and postretirement benefits can be found in Notes 12 and 13 of the financial statements.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Chesterfield County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. This was the twenty-second consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

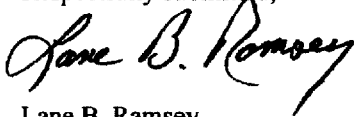
The Budget and Management Department received an award for Distinguished Budget Presentation from GFOA, making Chesterfield one of only a few local governments in the country to receive the award for nineteen consecutive years. By earning this award, Chesterfield continues to demonstrate the strong leadership that is needed to handle the challenges that face local governments on a daily basis.

The National Institute of Governmental Purchasing (NIGP) of the United States, Canada, Ireland, and England established an agency accreditation program which recognizes excellence in public purchasing by establishing a body of standards that

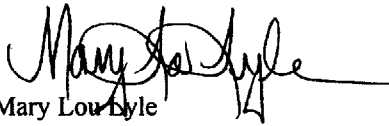
should be in place for a quality purchasing operation. In October 2002, the NIGP reaccruited the Chesterfield County Purchasing Department with the Outstanding Agency Accreditation Achievement Award for demonstrating excellence in public purchasing. When certification was first obtained in 1999, Chesterfield County's Purchasing Department was the eighth agency overall and the first locality or state agency in Virginia to receive this award. Accreditation certification is valid for three years at which time the agency will be required to re-accredit.

We would like to express our appreciation to the staff of the Accounting Department who contributed to the timely preparation of this report. We would also like to thank the members of the Board of Supervisors for your interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lane B. Ramsey". The signature is fluid and cursive, with a long horizontal stroke at the end.

Lane B. Ramsey  
County Administrator

A handwritten signature in black ink, appearing to read "Mary Lou Dyle". The signature is cursive, with a large initial "M" and a long horizontal stroke at the end.

Mary Lou Dyle  
Director of Accounting